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Subject: Interagency Concentrations in Commercial Real Estate Lending

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Proposal: Interagency Guidance on Commercial Real Estate Lending

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Comments:

As the senior credit officer of a community bank in Richmond, Virginia, I am disturbed by proposed guidance under Docket No. OP-1248 (commercial real estate concentrations) as being unreasonably harsh in its potential affects on community banks. Competition within our industry has increasingly led community banks to real estate lending as a source of sound asset growth and profitability. The proposed guidance would severely restrict our industry competitively. The proposed guidance does not provide the capacity for understanding portfolio composition but rather will lump exposure together regardless of that composition. For example, while our bank is relatively active in residential acquisition and development loans, the vast majority of these loans are at less than regulatory loan to value percentages and often can be typified as small developments requiring no infrastructure (utilities), but merely the subdivision of property with a small "stub" road. The loan has strong sponsorship and often the very limited number of lots under development are already sold. Yet under the proposed guidance, this loan would be treated identically to a loan made for a multi-phase residential development of several hundred lots requiring sewer, water, roads, curb and gutter and perhaps extending over several years. Ironically, it is the latter loan that would be found at a regional or money center bank which will have no problem complying with the proposed guidance as it has access to markets (consumer, national retailers and wholesalers) that are not accessible to the community banks, and therefore the ability to dilute concentrations. Further, these larger institutions have a far easier time raising capital in an effort to potentially reduce concentrations. In speaking with several of our peer institutions here in Richmond, it is apparent that the guidelines would essentially put us out of business as lending activity would come to a complete halt, as our lending activity is dominated by real estate lending, and the concentration levels proposed lie far below our current exposure levels. Realistically, community banks may find

opportunities to lend to small business, secured by accounts receivable and other business assets, and with these opportunities comes a much higher risk profile (supported by historic experience). Of course, historically we have not found much encouragement for this type of lending from the regulatory agencies. The proposed guidance while well intended, will cripple community banks, reduce access to capital for small builders and developers, and thus potentially impact property values, and in that sense become potentially self-fulfilling. Finally, the proposed guidance will merely require yet another layer of expensive and time consuming compliance requirements in an industry that most would argue is already highly over-regulated. We sincerely appreciate the value of the examination process from both the Federal Reserve and the State, however, broad over-reaching guidance such as that proposed can not replace (nor amplify) the careful day-to-day underwriting and portfolio management efforts being made at our community banking institutions.